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OCTOBER 1984 MONTHLY REPORT

November 2, 1984

Surveys of Consumer Attitudes

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THE 21 MONTH SOLUTION

** In the October 1984 survey, the Index of Consumer Sentiment was 96.3, down from 100.9 in September, and above the year earlier figure of 89.1. The October 1984 survey was the 21st consecutive monthly survey in which the Index was higher than the year earlier reading. The small October decline was concentrated among residents of the Northeast and North Central regions, reflecting somewhat less favorable income and employment trends.

** Personal financial evaluations have remained at very favorable levels, despite the small decline in the October survey. The proportion of families that reported an improved financial situation was 44 percent in October, just below the 45 percent recorded one month earlier. Unfavorable financial evaluations, however, rose to 26 percent in October from 20 percent in September, largely due to more frequent reports of income declines.

** Prospects for the national economy have tilted toward slower growth, but nonetheless favorable economic conditions. Importantly, the slowdown was expected to result in no further reductions in the unemployment rate. The expected slowdown in economic growth, however, was not expected to lead to recession in 1985, as 60 percent of all families expected good times financially to persist in the country as a whole during the year ahead.

** Interest rate expectations have improved substantially during the past six months, but still remain on balance unfavorable. Among all families in the October survey, 45 percent expected increases in interest rates, down from 52 percent in September and the peak of 68 percent in April 1984. Confidence in government economic policies was expressed by 36 percent of all families in October, the highest level in more than ten years.

** Attitudes toward buying conditions for vehicles and large household durables each declined by a small amount in the October survey due to less favorable perceptions of market prices, while attitudes toward home buying improved marginally, due to lower mortgage interest rates. In all cases, attitudes toward buying conditions have remained at favorable levels.

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The speed, extent, and length of the current recovery in consumer attitudes and expectations has been distinctive. By the start of 1983, the dominant characteristic was the very rapid growth in favorable attitudes and expectations. By the start of 1984, the focus shifted to the extent of the recovery, as optimism reached record levels. As we near the end of 1984, the prolonged length of time that sentiment has remained at very favorable levels has become its most distinctive aspect. The maintenance of consumer sentiment at very favorable levels points toward continued strength in sales through 1984 and into 1985. Unlike the period of growth in consumer sales in the mid-1970s, when low real interest rates tilted spending in favor of credit purchases, the current high real rates will favor non-credit purchases.

Monitoring Economic Change Program

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Personal Finances Remain Strong

Despite the small decline recorded in the October survey, consumers' evaluations of their current financial situation have been more favorable thus far in 1984 than at any other time during the prior ten years. Among all families, 44 percent reported being better off financially than a year earlier in the October 1984 survey, just below the 45 percent recorded one month earlier. Unfavorable financial evaluations rose to 26 percent in October, up from 20 percent one month earlier. The major reason for the one-month increase in unfavorable evaluations has been more frequent reports of declines in family income, rising to 18 percent in October from 12 percent in September. The recent small increase in the proportion of families reporting financial reversals was concentrated among residents of the North Central and Northeast regions.

Financial prospects for the year ahead have remained largely unchanged at very favorable levels throughout the past year. Among all families, 38 percent expected their financial situation to improve in the October 1984 survey, between the 39 percent recorded one month earlier and the 37 percent recorded one year earlier. Just 11 percent of all families in the October survey expected financial reversals during the year ahead, between the 8 percent recorded in September, and the 13 percent recorded in October 1983.

The major factor underlying the improvement in personal finances has been the sustained decline in inflation. The October 1984 survey recorded the most favorable real income progress reported by American families during the past ten years. Among all families, more than half (56 percent) reported that their income had increased during the past year by as much as or by more than the rate of inflation. Moreover, two-thirds of all families in the October

1984 survey expected their incomes to keep pace with or exceed the rate of inflation during the year ahead.

Slower Pace of Growth Expected

In each of the last 12 monthly surveys, approximately two-thirds of all families reported that economic conditions in the country as a whole had improved during the prior year. In the October 1984 survey, 65 percent were aware of improved business conditions, compared with 23 percent that thought the economy had worsened during the past year. Although these proportions are nearly identical to the year earlier figures (66 versus 23 percent), they do represent a relatively small decline from the all-time peak recorded at the start of 1984 (75 versus 17 percent).

Along with the widespread recognition of the rapid and sustained gains made during the past year, prospects for the year ahead have tilted toward slower economic growth, but nonetheless favorable economic conditions. Continued improvement in the national economy was expected by 32 percent of all families in October, twice the 16 percent that expected worsening economic conditions during the year ahead. While this distribution has remained largely unchanged during the past six months, it is significantly less favorable than in early 1983, when 55 percent expected improvement compared with just 6 percent that expected economic declines.

Good times financially in the economy as a whole were expected by 60 percent of all families in October, down from 66 percent one month earlier, and below the cyclical peak of 73 percent recorded in January 1984. Despite this recent decline, short term business expectations were still more favorable in October than at their mid 1970s cyclical peak. Long term business expectations also declined by a small amount in the October survey,

but remained at very favorable levels. Among all families, 43 percent expected good times financially in the economy as a whole during the next five years, down from 47 percent in September--which was the highest proportion recorded in more than a decade.

No Further Reductions in Unemployment Expected

When first recorded one year ago, the substantial improvement in assessments of the national economy were accompanied by significant declines in expected inflation, unemployment, as well as interest rates. Since that time, these three important economic factors have no longer improved in unison. The proportion of families that expected further reductions in the unemployment rate has fallen steadily since early 1983. Interest rates expectations, after posting sharp increases in late 1983 and early 1984, have posted consecutive declines during the past six months. Price expectations, following substantial declines in prior years, have remained largely unchanged during the past twelve months. The annual rate of inflation expected in the October 1984 survey was 5.3%, just above the 5.2% recorded one year earlier.

Declines in the unemployment rate were expected by 23 percent of all families in the October 1984 survey, compared with 24 percent that expected increases during the year ahead. This represents the first month in nearly two years that unemployment expectations were on balance unfavorable. Rather than renewed increases, the majority of all families (54 percent) in the October survey expected the aggregate unemployment rate to remain largely unchanged at its current level during the year ahead.

Interest rate expectations have improved significantly during the past six months. In the October survey, 45 percent of all families expected increases in interest rates during the year ahead, down from 52 percent in

September, and the recent high of 68 percent in April 1984. Declines in interest rates were more frequently expected in October, but the improvement was rather small, rising to 18 percent from a low of 8 percent in April. Overall, interest rate expectations have remained at unfavorable levels, as this recent improvement has only partially offset the sharp reversals recorded in late 1983 and early 1984.

Confidence in government economic policies to reduce inflation and unemployment remained at high levels in the October 1984 survey. Among all families, 36 percent favorably rated government economic policies, just above the 35 percent recorded one month earlier, and the highest proportion recorded under the Reagan Administration. Since the start of 1982, in contrast to the prior five years when inflation dominated consumers' concerns, more families have identified unemployment rather than inflation as the more serious problem facing the nation. In the October 1984 survey, 56 percent of all families identified unemployment as the more serious economic hardship, compared with 35 percent that thought inflation represented the more serious problem.

Favorable Buying Attitudes Maintained Amid Shifting Perceptions of Prices

Attitudes toward buying conditions for large household durables remained at very favorable levels in the October 1984 survey. Among all families, 70 percent thought that current buying conditions for durables were favorable, just below the 72 percent recorded one month earlier, and the all-time peak of 73 percent recorded at the start of 1984. The major reason given by consumers for these evaluations has been favorable perceptions of market prices. In the October survey, 29 percent of all families cited the appeal of low prices and discounts, compared with just 12 percent that complained about high prices. Unfortunately, the 29 percent of all families that referred to

availability of lower prices in the October survey represents a decline from 34 percent one month earlier, and the all-time peak of 45 percent in January 1984. Thus far, however, the shift has been limited to the decline in the availability of discounted prices, since complaints about increased prices for durables have remained relatively infrequent during the past year--12 percent in the October survey.

Favorable attitudes toward buying conditions for vehicles were held by 54 percent of all families in the October survey, down from 59 percent one month and one year earlier. Unfavorable car buying attitudes were held by 34 percent of all families in October, just below the 35 percent recorded in September, and unchanged from the October 1983 reading. The recent small decline has been due to less favorable perceptions of market prices for new vehicles, with complaints about high prices being more frequent than references to rebates or discounted prices in the October survey (23 versus 18 percent).

Attitudes toward current home buying conditions improved somewhat in the October survey, due to lower mortgage interest rates. The proportion of families that held favorable home buying attitudes was 52 percent in October, just above the month earlier reading of 48 percent, but significantly below the 66 percent cyclical peak recorded six months earlier. The small recent improvement was due to fewer complaints about high mortgage interest rates, falling to 33 percent in the October survey, from 37 percent one month earlier. References to the availability of lower mortgage rates rose marginally to 24 percent in October from 22 percent in September. Reflecting the improved interest rate outlook, reference to buying-in-advance of rising mortgage rates fell to 11 percent from a peak of 23 percent six months earlier (see Table A).

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The October 1984 survey was conducted between October 1 and October 30, 1984, and included 706 completed interviews.

TABLE A

REFERENCES TO INTEREST RATES IN SUPPORT OF
FAVORABLE BUYING CONDITIONS

Survey Date	Durables		Houses		Vehicles	
	Low Rates	BiA Rates	Low Rates	BiA Rates	Low Rates	BiA Rates
8001	1	2	NA	NA	1	1
8002	1	2	2	7	1	2
8003	1	4	NA	NA	1	2
8004	*	3	*	3	3	1
8005	*	2	3	3	*	1
8006	2	1	14	2	2	1
8007	4	1	17	6	2	1
8008	3	2	19	9	3	1
8009	1	2	11	11	2	2
8010	1	3	6	10	1	2
8011	*	2	2	8	1	2
8012	1	2	1	5	2	2
8101	*	2	1	3	4	1
8102	1	2	2	5	2	1
8103	1	*	1	4	1	1
8104	*	2	3	6	2	1
8105	1	2	4	3	3	1
8106	*	1	1	4	2	1
8107	1	1	2	4	2	1
8108	2	1	3	5	4	1
8109	*	1	3	3	4	2
8110	*	1	1	3	4	*
8111	1	1	2	2	5	*
8112	1	1	4	2	4	1
8201	2	1	5	3	4	2
8202	1	1	4	3	3	*
8203	*	1	3	2	3	*
8204	1	*	4	2	7	*
8205	2	1	3	3	10	1
8206	1	1	5	2	6	1
8207	1	1	2	2	4	1
8208	1	1	3	4	5	1
8209	3	1	16	4	9	1
8210	4	1	19	4	10	1
8211	5	*	25	5	19	1
8212	6	2	30	5	26	1

TABLE A (continued)

Survey Date	Durables		Houses		Vehicles	
	Low Rates	BiA Rates	Low Rates	BiA Rates	Low Rates	BiA Rates
8301	7	*	33	4	27	2
8302	7	1	35	5	34	1
8303	7	1	38	6	33	1
8304	12	2	46	8	38	2
8305	12	1	49	6	38	2
8306	13	3	49	12	38	2
8307	14	2	40	9	34	3
8308	11	1	33	11	30	3
8309	9	3	35	12	25	3
8310	6	1	29	9	17	2
8311	6	2	29	11	20	2
8312	6	1	30	11	16	3
8401	8	1	33	8	20	3
8402	9	2	38	12	19	3
8403	8	2	36	13	19	3
8404	8	6	29	23	15	7
8405	7	4	24	20	14	4
8406	7	4	21	17	12	6
8407	5	5	21	16	16	8
8408	6	2	22	13	12	5
8409	6	2	22	12	11	4
8410	7	4	24	11	10	4

NOTE: The proportions given above provide greater detail than is reported in the monthly tables (see Tables 27, 29 and 31). The monthly tables report the total proportion of respondents that made favorable references to credit conditions. The figures above divide this total into those respondents that referred to the current availability of low interest rates, and those that referred to buying-in-advance of rising interest rates.